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SUGGESTED SOLUTION

CA INTERMEDIATE NOV'19

SUBJECT- ACCOUNTING STANDARD

Test Code - CIM 8317

BRANCH - () (Date :)

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Answer 1:

(A)

As per the amendment in AS 4 "Contingencies and Events Occurring After the Balance Sheet Date" vide Companies (Accounting Standards) Amendments Rules, 2016 dated 30th March, 2016, the events which take place after the balance sheet date, are sometimes reflected in the financial statements because of statutory requirements or because of their special nature.

However, dividends declared after the balance sheet date but before approval of financial statements are not recognized as a liability at the balance sheet date because no statutory obligation exists at that time. Hence such dividends are disclosed in the notes to financial statements.

No, provision for proposed dividends is not required to be made. Such proposed dividends are to be disclosed in the notes to financial statements. Accordingly, the dividend of Rs. 4 crores recommended by New Graphics Ltd. in its Board meeting on 18th April, 2017 shall not be accounted for in the books for the year 2016-17 irrespective of the fact that it pertains to the year 2016-17 and will be paid after approval in the Annual General Meeting of the members / shareholders. **(5 marks)**

(B)

As per AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled :

(i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and

(ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

Case (i) : 25% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for Rs. 3,00,000 (75% of Rs. 4,00,000)for the year ended on 31.3.17. In case of consignment sale revenue should not be recognized until the goods are sold to a third party.

Case (ii) : The sale is complete but delivery has been postponed at buyer's request. Fashion Ltd. Should recognize the entire sale of Rs. 1,95,000 for the year ended 31st March, 2017.

Case (iii) : In case of goods sold on approval basis, revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act adopting the transaction or the time period for rejection has elapsed or where no time has been fixed, a reasonable time has elapsed. Therefore, revenue should be recognized for the total sales amounting Rs. 2,50,000 as the time period for rejecting the goods had expired.

Thus total revenue amounting Rs. 7,45,000 (3,00,000 + 1,95,000 + 2,50,000) will be recognized for the year ended 31st March, 2017 in the books of Fashion Ltd. **(5 marks)**

Answer 2:
(A)

		Year 2015 – 16	Year 2016 – 17
		Rs.	**(Rs.)**
(i)	EPS for the year 2015 – 16 as originally reported = Net profit for the year attributable to equity share holder /weighted average number of equity shares outstanding during the year Rs. 35,00,000/ 15,00,000 shares	2.33	
(ii)	EPS for the year 2015 – 16 restated for the right issue Rs. 35,00,000/15,00,000 shares × 1.08	2.16	
(iii)	EPS for the year 2016 – 17 (including effect of right issue) Rs. 45,00,000/ [(15,00,000 × 1.08 × 4/12) + (20,00,000 × 8/12)]		2.40

(3 marks)

Working Notes :

1. Computation of theoretical ex – rights fair value per share =

$$\frac{Fair\ valu\ eof\ all\ outstanding\ shares\ immediately\ prior\ to\ exercise\ of\ rights +\ total\ amount\ received\ from\ exercise}{Number\ of\ shares\ outstanding\ prior\ to\ exercise + number\ of\ shares\ issued\ in\ the\ exercise}$$

[(Rs. 35 × 15,00,000) + (Rs. 25 × 5,00,000)]/(15,00,000 + 5,00,000) = Rs. 32.5 **(1 mark)**

2. Computation of adjustment factor

$$\frac{Fair\ value\ per\ share\ prior\ to\ exercise\ of\ rights}{Theoretical\ ex - rights\ value\ per\ share}$$

= Rs. 35/32.50 = 1.08 (approx.) **(1 mark)**

Alternative Solution : **(3*1 = 3 marks)**

(I) Basic EPS (2015 – 16) = $\frac{PAESHS}{WANES} = \frac{35,00,000}{15,00,000}$ = 2.33

(II) Basic EPS (2016 – 17) = $\frac{PAESHS}{WANES} = \frac{45,00,000}{15,00,000 \times \frac{12}{12} + 115,385 \times \frac{12}{12} + 384615 \times \frac{8}{12}}$

$= \frac{45,00,000}{18,71,795}$ = 2.40

(III) Restated EPS (2015 – 16) = $\frac{PAESHS}{WANES} = \frac{Rs.35,00,000}{15,00,000+115,385}$ = Rs. 2.16

Working note **(2 marks)**

Step : 1 Theoretical Ex – Rights Price =

$$= \frac{Existing\ Market\ Value\ of\ Existing\ shares + Money\ received\ from\ Rights\ issue}{Total\ no.of\ shares\ after\ Right\ issue}$$

$$= \frac{15,00,000\ shares \times Rs.35\ MP + 5,00,000\ shares \times Rs.25\ RIP}{15,00,000+5,00,000} = 32.5$$

Step : 2 **Paid up shares =** $\frac{No.of\ Right\ Shares \times Rights\ Issue\ Price}{Theoretical\ Ex\ Rights\ Price} = \frac{5,00,000\ shares \times Rs.25\ RIP}{32.5}$

= 384,615 Shares

Step : 3 **Bonus Shares = No. of Rights shares – Paid up Shares**

= 5,00,000 – 384,615

= 115,385 shares

(B)

As per AS 13 'Accounting for Investments', if the shares are purchased with an intention to hold for short – term period then investment will be shown at the realizable value. In the given case, shares purchased on 31st October, 2016, will be valued at Rs. 3,75,000 as on 31st March, 2017.

Gold and Silver are generally purchased with an intention to hold it for long term period until and unless given otherwise. Hence, the investment in gold and silver (purchased on 31st March, 2014) shall continue to be shown at cost as on 31st March, 2017 i.e., Rs. 5,00,000 and Rs. 2,25,000 respectively, though their realizable values have been increased.

Thus the shares, gold and silver will be shown at Rs. 3,75,000, Rs. 5,00,000 and Rs. 2,25,000 respectively and hence, total investment will be valued at Rs. 11,00,000 in the books of account of M/s Active Builders for the year ending 31st March, 2017 as per provisions of AS 13. **(5 marks)**

Alternative Solution:

(1) This question relates to AS 13 (Revised), "Accounting for Investments".

(2) As per AS 13, if the shares purchased with an intention to be sold within 12 months then such shares will be valued at cost or Fair Value whichever is lower i.e. Rs.3,75,000 on 31/3/2017.

If the shares are purchased with an intention to hold for a period of more than 12 months then such shares will be valued at cost unless the decline is other than temporary i.e. Rs. 4,50,000 on 31/3/2017.

(3) Unless otherwise specified, it is assumed that Gold and Silver are purchased with an intention to hold for a period of more than 12 months then such investments will be valued at cost unless the decline is other than temporary i.e. Rs. 5,00,000 and Rs. 2,25,000 respectively.

(5 marks)

Answer 3:

(A)

Desire Limited amortised Rs. 20,00,000 per annum for the first two years i.e. Rs. 40,00,000. The remaining carrying cost can be amortized during next 5 years on the basis of net cash flows arising from the sale of the product. The amortisation may be found as follows :

(1 mark)

Year	Net Cash flows (Rs.)	Amortization Ratio	Amortization Amt. Rs.
I	-	0.200	20,00,000
II	-	0.200	20,00,000
III	45,00,000	0.225	13,50,000
IV	42,00,000	0.21	12,60,000
V	40,00,000	0.20	12,00,000
VI	38,00,000	0.19	11,40,000
VII	35,00,000	0.175	10,50,000
Total	2,00,00,000	1.000	1,00,00,000

(4 marks)

It may be seen from above that from third year onwards, the balance of carrying amount i.e., Rs. 60,00,000 has been amortized in the ratio of net cash flows arising from the product of Desire Ltd. **(1 mark)**

(B)

Valuation of unfinished unit

	Rs.
Net selling price	750
Less: Estimated cost of completion	(310)
	440
Less: Brokerage (4% of 750)	(30)
Net Realisable Value	410
Cost of inventory	530
Value of inventory (Lower of cost and net realisable value)	410

(4 marks)

Answer 4:

(A)

According to AS 10 (Revised), these costs can be capitalised:

1.	Cost of the plant	Rs. 50,00,000
2.	Initial delivery and handling costs	Rs. 4,00,000
3.	Cost of site preparation	Rs. 12,00,000
4.	Consultants' fees	Rs.14,00,000
5.	Estimated dismantling costs to be incurred after 7 years	Rs. 6,00,000
		Rs. 86,00,000

(5 marks)

Note: *Interest charges paid on "Deferred credit terms" to the supplier of the plant (not a qualifying asset) of Rs. 4,00,000 and operating losses before commercial production amounting to Rs. 8,00,000 are not regarded as directly attributable costs and thus cannot be capitalised. They should be written off to the Statement of Profit and Loss in the period they are incurred.*

(B)

Company amortized Rs. 16,00,000 per annum for the first two years. Hence, Amortization for the first two years (Rs. 16,00,000 × 2) = Rs. 32,00,000. **(1 mark)**

Remaining carrying cost after two years = Rs. 1,60,00,000 – Rs. 32,00,000

= Rs. 1,28,00,000 **(1 mark)**

Since after two years it was found that the product life cycle may continue for another 5 years, hence the remaining carrying cost Rs. 128 lakhs will be amortized during next 5 years in the ratio of net cash arising from the sale of the products of Fast Limited.

The amortization cost of the patents may be computed as follows :

Year	Net Cash flows.	Amortization Ratio	Amortization Amount
	Rs.		**Rs.**
I	-	0.1	16,00,000
II	-	0.1	16,00,000
III	50,00,000	0.2	25,60,000
IV	30,00,000	0.12	15,36,000
V	60,00,000	0.24	30,72,000
VI	70,00,000	0.28	35,84,000
VII	40,00,000	0.16	20,48,000
Total	250,00,000	1,000	160,00,000

(3 marks)

Answer 5:
(A)

Basic Earnings per share (EPS) =

$$= \frac{Net\ Profit\ attributable\ to\ equity\ shareholders}{Weighted\ average\ number\ of\ equity\ shares\ outstanding\ during\ the\ year}$$

$= \frac{21{,}96{,}000}{4{,}57{,}500\ Shares\ (as\ per\ working\ note)}$ = Rs. 4.80 per share **(1 mark)**

Working Note :

Calculation of weighted average number of equity shares

As per AS 20 'Earnings Per Share', partly paid equity shares are treated as a fraction of equity share to the extent that they were entitled to participate in dividend relative to a fully paid equity share during the reporting period. Assuming that the partly paid shares are entitled to participate in the dividend to the extent of amount paid, weighted average number of shares will be calculated as follows :

Date	No. of equity shares	Amount paid per share	Weighted average no. of equity shares
	Rs.	Rs.	
1.4.2016	6,00,000	5	6,00,000 × 5/10 × 5/12 = 1,25,000
1.9.2016	5,40,000	10	5,40,000 × 7/12 = 3,15,000
1.9.2016	60,000	5	60,000 × 5/10 × 7/12 = 17,500
Total weighted average equity shares			4,57,500

(3 marks)

(B)

As per AS 4 'Contingencies and Events Occurring After the Balance Sheet Date', adjustment to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the Balance Sheet date.

A debtor for Rs. 20,00,000 suffered heavy loss due to earthquake in the last week of February, 2017 which was not covered by insurance. This information with its implications was already known to the company. The fact that he became bankrupt in April, 2017 (after the balance sheet date) is only an additional information related to the condition existing on the balance sheet date.

Accordingly, full provision for bad debts amounting Rs. 20,00,000 should be made, to cover the loss arising due to the insolvency of a debtor, in the final accounts for the year ended 31st March, 2017. Since the company has already made 5% provision of its total debtors, additional provision amounting Rs. 19,00,000 shall be made (20,00,000 × 95%) for the year ended 31st March, 2017. **(6 marks)**